Ontario Economic Council

Ontario

81 Wellesley Street East
Toronto, Ontario
M4Y 1H6

(416) 965-4315

NOT FOR RELEASE BEFORE: March 30, 1983

TORONTO, March 30, 1983 -- The current economic malaise is something we are likely to recover from, and according to a wide-ranging study prepared for the Ontario Economic Council, both the Canadian and Ontario economies have growth potential on a sustained basis, but their growth projections for the eighties and into the mid-nineties will not be as great as actual growth in the sixties.

The study, entitled "THE ONTARIO ECONOMY 1982-1995" shows that we are not in for a great ten year depression.

This long-term analysis of the economy was prepared as a conditional projection, and is not a forecast, nor should it be interpreted as one. It contains two volumes, and two long-term projections.

Since such an analysis is based on certain assumptions that could very well change, it is easy to see how difficult it can be to prepare long-term projections.

For example: The dropping of the mega projects - Alsands and Cold Lake - involved a government policy change. You can't predict these changes and this is what makes the projections change over time.

---

*This report reflects the views of the authors and not necessarily those of the Ontario Economic Council. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of the authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

(See the FORWARD included with the study. The O.E.C.'s David Conklin gives an interesting and informative explanation of the process of long-term economic projections.)

The first projection (Volume 1) was originally developed in early 1982. It should now be considered an 'optimistic' alternative.

The authors of "THE ONTARIO ECONOMY 1982-1995" are:
Peter Dungan, an assistant professor of economics at the Institute for Policy Analysis, University of Toronto; Douglas Crocker, an economist at the Ontario Economic Council; Gay M. Garesché, an economist at the University of Toronto.

- Ontario will grow, but somewhat less than the national average. The average growth rate from 1986-90 will be about 3 per cent, and 2 per cent from 1991-95. The West will grow faster but the difference will not be very large. "It is clear that given Ontario's already large scale, its share of the Canadian economy has changed relatively little since the late 1960s; on average, the province accounted for about 42 per cent of Canadian output in 1967-73 and about 40 per cent in 1974-80."

  A further gradual decline is projected, to an output share averaging 38.8 per cent over the 1980s and ending the decade at 38.4 per cent. (See Table 11, page 37, Volume 2)

  The authors contend that it's not so much that Ontario is doing badly, it's just that the West is doing well because of special resource opportunities. This can be compared to Ontario's favourable position in the fifties and sixties.

- As the economy recovers the Ontario unemployment rate drops with the Canadian rate and ends the decade at about a little under 7 per cent which is one per cent below the national average.

- One of the more serious of the projections is that on average, growth prospects for the mining sector are poor.

- Manufacturing will not be a source of strong growth. Employment growth will be poor in the manufacturing sector. Increased output in manufacturing will come largely from increased productivity not from new employment - in other words, more output per worker as opposed to more workers.

- The bulk of increased employment will be in the service industries.

- After the recovery no major construction boom is foreseen in Ontario, but there will be some recovery from the current low levels. It will get back to trend. The worse it goes down from the current recession, the more it will snap back and there will be an apparent boom, but that's because construction is coming off a lower base. The report stresses that in the long-run there won't be any construction boom.

- Real per-capita disposable income ranges from 8½ per cent above the national average in 1982 to less than one per cent above by 1995. Average annual growth in real disposable income is the slowest in the country, but it is important to remember that even so, the level of Ontario income remains above the national average.

- The authors don't see any fundamental change yet in the economic structure or the way the economy performs. Therefore, inflation will tend to stay with us as a problem. (See explanation under Canadian conclusions.)

The authors of this report say there's no way they can see Ontario becoming a back-water or a have-not province.

They don't see a strong movement of the centre of gravity of Canada's economy to the west.

One of the reasons why Ontario's and Canada's growth will not be as high is the change in the country's population. (The authors of the Council study acknowledge the work of David Foote of the University of Toronto.)

> Population growth slows throughout the projection horizon due to reduced immigration and a lower natural increase. (See Table 1 of Volume 2.)
>
> Government targets for immigration are lowered in reaction to high domestic unemployment rates.
>
> The combination of low fertility rates and fewer individuals entering the prime child-bearing years leads to lower natural population increases.
>
> Growth in the population fifteen years and older also decelerates, though not as fast as total population growth.
>
> The high unemployment rate projected for the 1980s induces a slower increase in the participation rate than was recorded in the 1970s because a sizeable discouraged worker effect develops.

There are certain key assumptions which have been used in this report to produce the Ontario economic scenario.

The international environment has a great bearing on any provincial projection.

- o The U.S. economy experiences sluggish growth in total real output in the early eighties followed by a slow recovery. Growth remains only slightly above potential throughout the recovery period.

- o Canada's other major trade partners suffer a similar economic malaise.

- The Canadian dollar remains stable at about 81 cents (US) as a good balance of trade performance in 1982, a stable gap between Canadian and U.S. interest rates in the next few years, and a favourable energy balance in the late 1980s and early 1990s offset the effect of moderately higher Canadian inflation and the pursuit of somewhat nationalistic economic policies in this country.

Just as it is true that an Ontario economic projection relies heavily on the international environment, it is also true that the Canadian projection is a must in developing the provincial scenario.

The authors conclude the following about Canada in the years to come and going into the mid-nineties.

- Real GNP growth is expected to average just under 3 per cent per year. (See Table 4 of Volume 2.)

- Inflation declines very gradually after 1983 but stays well above 5 per cent. As stated in the report, inflation is expected to stay very close to the 9 per cent level.

  (It is noted in the preface however, that the authors consider this a very pessimistic outlook for inflation and that the possibility exists it could be several percentage points lower. The results for real output and employment would be only marginally affected by such a revision.)

- Nominal interest rates follow the basic pattern of inflation in Canada.

- The growth of the energy sector is also expected to improve both the balance of trade and the consolidated government balance.

- Employment growth is projected to return to rates that are more reasonable by historical standards, and the unemployment rate falls to approximately 8 per cent by 1990.

- As pointed out in the Ontario scenario, the service sectors lead the output growth throughout most of the 1980s and into the 1990s with the major portion of employment creation occurring there.

This is a very wide-ranging study that covers both the historical background on the Canadian and Ontario economies, as well as a forward-looking presentation.

The researchers have provided a tremendous amount of information that will be helpful, if used carefully, to anyone interested in our economic future.

For those concerned with public policy, the material can be important in such tasks as projecting government revenues. For those concerned with the prospects of particular economic sectors, the information presented can assist in evaluating business opportunities.

FOR FURTHER INFORMATION PLEASE CONTACT:

David Conklin, Research Director and Executive Secretary	416-965-4315
Doug Crocker	416-965-4315
Peter Dungan	416-978-4182

<u>The Ontario Economy 1982-1995</u>, Ontario Economic Council Policy Study, 2 volumes (Vol. 1, 286 pages and Vol. 2 159 pages), price $10.00, is available at the following outlets:

The Ontario Government Bookstore, 880 Bay Street, Toronto, for those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.

Renouf Publishing Company, Limited, 61 Sparks Street, Ottawa, Ontario, K1P 5A6, telephone (613) 238-8985.

The Bookstore, Windsor Public Library, 850 Ouellette Avenue, Windsor, Ontario, N9A 4M9, telephone (519) 255-6765.